



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

Inspection of Imprest Fund Management in RMI Embassy
in Washington D.C.
Fiscal Years 2009 to 2013



REPORT NO: 14/13-1660

July 31, 2015

Date

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REPUBLIC OF THE MARSHALL ISLANDS



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Honorable Tony A. deBrum
Minister of Foreign Affairs
Republic of the Marshall Islands

Subject: Inspection Report: Washington D. C. Embassy Management of Imprest Funds

Dear Minister:

The Office of the Auditor-General (OAG) performed an inspection review of the Imprest Fund managed by the Washington D. C. Embassy. The objectives of our review were to determine if: (1) Imprest Fund expenditures were incurred and paid in compliance with established laws, policies and guidelines, and (2) capital assets under the custody of the Embassy were properly accounted for. The review of the Embassy's Imprest Fund operations covered fiscal years 2009, 2010, 2011, 2012, and 2013.

Unless well controlled, Imprest Funds provide opportunities for misuse, loss, and theft of money. Ministry of Finance Imprest Fund policies specify accounting and physical controls to minimize these opportunities. The Ministry of Foreign Affairs (MOFA) and each Embassy are responsible for implementing and complying with these Imprest Fund policies.

Our review found that some of the financial activities of the Embassy generally complied with relevant RMI laws and policies, but other activities are not in compliance. In addition, the Embassy does not fully adhere to requirements to maintain supporting documentation for all payments and to record all financial transactions, which has been a long standing and chronic issue beginning as early as 2009.

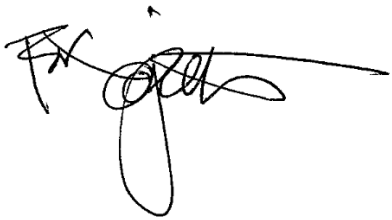
We conclude that many of the above issues indicate weaknesses in Imprest Fund management. Without a fully effective financial management processes, the potential for collusion and mismanagement of funds increases dramatically.

Pursuant to the Auditor-General Act of 1986, we provided the Charge d'Affaires a.i., Secretary of Finance, and Secretary of Foreign Affairs with a copy of our draft report requesting their responses in writing. We appreciated the response from the Charge d'Affaires a.i., Secretary of Finance, and Secretary of Foreign Affairs, which we have included as Appendix I, II and III, respectively. We also discussed our report during our exit conference on July 02, 2015.

The most important outcome of any audit or review is the correction of past deficiencies and improvement in the internal controls and operation. We believe that the implementation of our recommendations is a step in that direction. This office maintains a "Follow-Up System" and in order for this report to be closed, we require the actions detailed in Appendix VI to be implemented.

We wish to express our sincere appreciation to the Ambassador, Secretary of Foreign Affairs, Secretary of Finance, and their staffs for their cooperation during the course of the review.

Sincerely,

A handwritten signature in black ink, appearing to be 'Junior Patrick', with a long horizontal stroke extending to the right.

Junior Patrick
Auditor-General

Date: July 31, 2015

CC: President
Minister of Finance
Secretary of Finance
Secretary of Foreign Affairs
Ambassador, RMI Embassy in Washington D.C.
OAG File

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BACKGROUND

Republic of the Marshall Islands (RMI) Embassy in Washington D.C. was established pursuant to Cabinet Minute 114(86) dated August 11, 1986. Pursuant to the Foreign Affairs Act of 2007, Section 11 (2) entitled *Establishment of Missions of the Republic*, the primary functions of Missions, Embassies or posts include:

- 1) Pursue foreign policy objectives in the host country and jurisdictional areas of responsibilities;
- 2) Seek bilateral, multi-lateral and international assistance to support national development goals of RMI;
- 3) Transmit official communications between the Government of the RMI and Government of other countries and international organizations;
- 4) Promote and protect the interest of Marshallese citizens residing in the host country,
- 5) Provide consular services for Marshallese citizens abroad; and,
- 6) Any other functions as directed by the President and Cabinet.

Imprest Funds are fixed funds advanced to RMI Embassies, Consulates and Foreign Missions for their operational expenses. The amount is determined by the number of staff in the locations, the amount of business transactions handled and the cost of living in the host location. Embassy management and staff shall follow the Foreign Affairs Act of 2007 and the newly established Procedures for Imprest Fund Operations in Foreign Offices that contain guidelines and procedures for overseeing these accounts.

The RMI laws and regulations, such as the Financial Management Act, Procurement Code, Income Tax Act, Travel Policy, and Imprest Fund Guidelines, govern all activities of the Embassy.

The Embassy operates through an Imprest Fund. The Ambassador or the highest ranking Foreign Service Officer has the responsibility in ensuring that the disbursement from the fund are intended for official purposes and within the budget. The Ambassador may appoint a custodian of the fund who will be responsible for the day-to-day transactions and preparing monthly expenditure reports. The maintenance of complete and accurate supporting documentation is required in an Imprest fund environment.

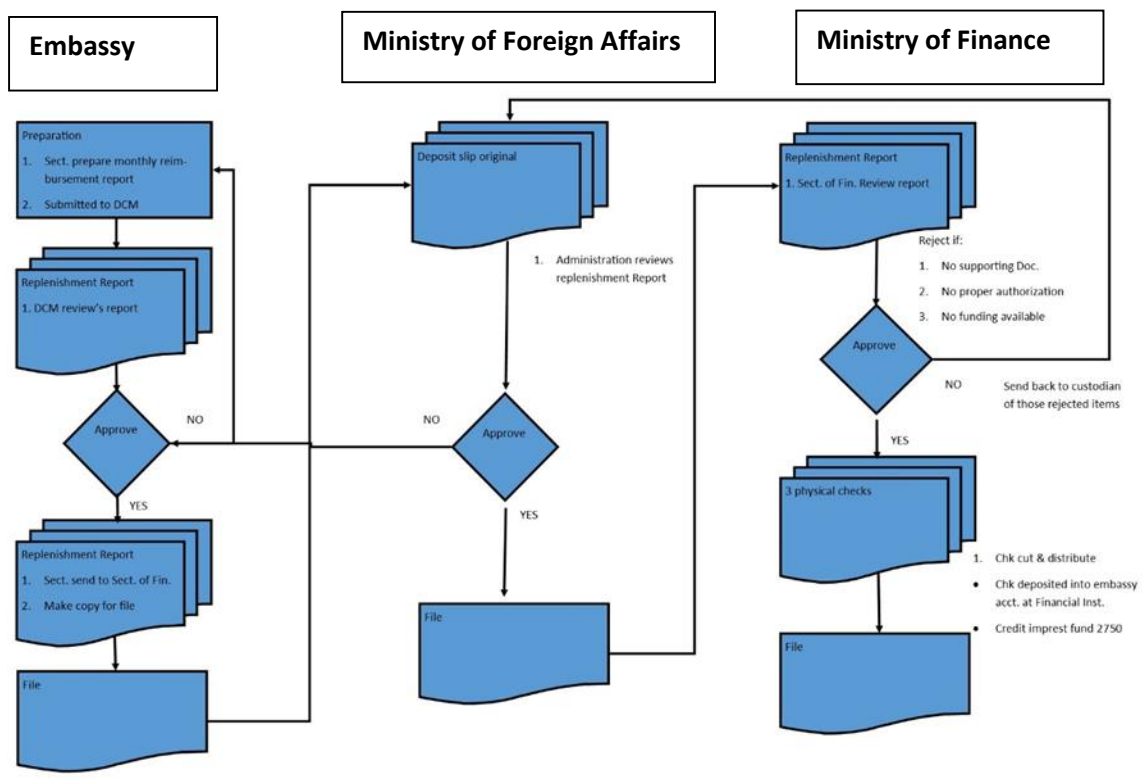
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Four Embassy officers have management and administrative responsibilities for complying with RMI laws, policies and procedures, - the Ambassador, First Secretary, the Congressional Liaison/Legal Adviser, and an Administrative Assistant under contract.

Unless well controlled, Imprest funds provide opportunities for misuse, loss, and theft of money. Accounting and physical controls to minimize these opportunities are specified in the MOF Imprest Fund policies.

As illustrated in Figure 1.0 below, Imprest Fund management requires Embassy staff to prepare and submit itemized reimbursement reports on a monthly basis to the Ministry of Foreign Affairs for review and processing. The monthly reimbursement reports shall be supported by itemized receipts and invoices for each expense item and submitted with a voucher, check register, cancelled checks, bank statements, reconciliations, and other required documents. The reimbursement reports are then forwarded to the Secretary of Finance for review, approval, and payment. The payment serves the purpose to replenish the Imprest Fund to its original amount.

Figure 1.0: Imprest Fund Replenishment Process



For its operational needs, each year the Embassy and the Ministry of Foreign Affairs prepares a budget for the Embassy’s recurrent operational expenses. Table 1 indicates the budget allocations for the operational expenses of the Embassy during the periods from FY 2009 through FY 2013.

Table 1: Operational Budget

Fiscal Year	Original Appropriation	Adjusted Budget
2009	\$367,041	\$299,872
2010	\$307,041	\$358,521
2011	\$290,154	\$278,123
2012	\$290,154	\$280,458
2013	\$341,389	\$328,658

Source: Appropriation Acts & MOF Financial Budget Reports (DILOG 240-P)

OBJECTIVES, SCOPE & METHODOLOGY

The OAG is concerned about the adequacy of internal controls related to safeguarding of assets, compliance with RMI laws, policies, and guidelines regarding the Imprest Fund. The OAG examined if: (1) Imprest Fund expenditures were incurred and paid in compliance with established laws, policies and guidelines, and (2) capital assets under the custody of the Embassy were properly accounted for.

The review was conducted pursuant to Article VIII, Section 15 (1) of the RMI Constitution which states in part:

“The Auditor-General shall audit public funds and accounts of the Republic of the Marshall Islands including those of the department or offices of the legislative, executive, and judicial branch of government, and of any other public corporation or other statutory authority constituted under the law of the Marshall Islands unless, in relation to any such public corporation or any statutory authority, provision is made by Act for audit by any other person.”

Our inspection was conducted from June to October, 2014 in accordance with the *Quality Standards for Inspections and Evaluations* as put forth by the Council of Inspectors General on Integrity and Efficiency (CIGIE). We believe that the work performed provides a reasonable basis for our conclusions.

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In accordance with OAG procedure, any illegal act or potentially fraudulent activity discovered during reviews are to be reported separately to OAG's Investigation Unit for further review. During this review, we did not identify applicable issues or concerns at the Washington D.C. Embassy that rendered such action. Issues concerning the objectives for this inspection are addressed in this report.

To accomplish our objectives for this inspection, the OAG variously conducted the following activities at the Ministry of Finance, Ministry of Foreign Affairs, and the Embassy located in Washington D.C:

- Analyzed actual expenditures versus appropriations to assess whether the Embassy exceeded its appropriations limit.
- Verified a random sample for each fiscal year from 2009 to 2013 of reimbursement forms to determine whether expenditures were included in the Embassy's line item budget, the permissibility of the expenditure, and whether the expenditure was properly supported. The examination tested transactions over \$500 and excluded payroll and cost of living allocation that were not subject to disbursement from the Imprest Fund.
- Evaluated the adequacy of internal controls to safeguard the assets of RMI by interviewing and evaluating RMI policies and procedures governing cash receipts, cash disbursements, purchasing, receiving, and acquisitions and dispositions of property and equipment.
- Verified the existence of all capital assets recorded on the Embassy's fixed assets register to identify the proper identification and existence of the asset, and the completeness of the fixed asset listing submitted to the Foreign Affairs Ministry.
- Randomly selected assets purchased from April to September 2013 to determine their existence on the fixed assets listing.
- Reviewed prior year audit reports and management letters prepared by RMI's external financial auditor.

The matters covered in this report were discussed with the Embassy, Ministry of Finance, and Ministry of Foreign Affairs officials during and at the conclusion of this inspection. We also provided a draft copy for review and formal comments. All offices generally agreed with our recommendations and agency views regarding the issues we identified were incorporated as

appropriate. For a full description of the formal comments submitted by the Embassy, Secretary of Finance, and Secretary of Foreign Affairs see Appendix I, II, and III, respectively.

PRIOR AUDIT COVERAGE

This is the first inspection review undertaken by the OAG on the Embassy's Imprest Fund operation. However, the OAG has performed internal control reviews in prior years.

PRINCIPLE FINDINGS

Finding No. 1 – The Embassy Has Insufficient Record Keeping Controls

The Ministry of Foreign Affairs is responsible for collecting reimbursement reports from the Washington D.C. Embassy. These reports contain records, such as bank statements, bank reconciliation, check register and evidence of Imprest Fund reconciliations to bank statements. These types of records were variously missing from MOF files for each Fiscal Year from 2009 to 2013. According to MOF staff, files had been misplaced due to their relocation of offices. In our efforts to obtain the information, we approached the Embassy as they are required to maintain the documentation, but the Embassy did not have on file copies of reconciliations performed on the Imprest Fund. Embassy management explained that staff were not properly trained on the reconciliation. So far the five year periods of our inspection and evaluation, reconciliations were not performed. Without adequate and complete documentation, we were unable to assess the effectiveness of the Embassy's financial management activities and the causes for any exceptions identified in this report.

Recommendation:

1. The Ministry of Foreign Affairs should electronically scan all financial records for proper storage and archiving of files.

Finding No. 2 - Embassy Expenditures Exceeded Budget Authorization

The Financial Management Act restricts departments and agencies of RMI from exceeding budget appropriations. In addition, Section 2 of the Over-Expenditures and Over-

Obligations of Fund Act stipulates that no personnel shall authorize or expend any government funds in excess of appropriated amounts, except in emergencies and only pursuant to procedures provided by law.

Our analysis of available budget and expense financial reports found that the Embassy was not in compliance with RMI laws for four of the five years that we examined. Embassy expenditures exceeded the approved appropriation amount for each of the five years, except in 2009, as shown in Table 2 below. Without effective financial management at the Embassy, budget deficits impact MOF’s ability to effectively manage RMI’s available revenue.

Table 2: Annual Budget and Expenditure Analysis

Fiscal Year	Approved Budget	Expenditures	Balance Remaining
2009	\$299,872.00	\$292,397.30	\$29.70*
2010	\$358,521.47	\$366,643.61	\$(8,122.14)
2011	\$278,123.00	\$323,394.71	\$(45,271.71)
2012	\$280,458.00	\$284,317.50	\$(3,859.50)
2013	\$328,658.00	\$251,101.44	\$(24,881.44)*

Source: OAG Analysis & MOF Financial Budget Report (DILOG 240-p)

*Difference in Budget Remaining totals is due to Year to Date Encumbrance balances. Please refer to Exhibits 1 through 5 for detailed expenditure report.

Recommendations:

The Embassy should:

2. Maintain a control or monitoring tool (e.g. spreadsheets) that includes the amounts allocated to each line item. Each time a purchase is made, the budget control log must be updated to reflect the decrease in the authorization. This is a very helpful tool that will help mitigate the risk of incurring expenses over the appropriated amount.
3. Obtain, on a monthly basis, the financial budget report from the Ministry of Finance and reconcile the report to the Embassy’s log. Any discrepancies are to be investigated and reported to the Ministry of finance for correction in a timely manner.

Finding No. 3 – Some Expenditures Did Not Match Reimbursement Documents or Did Not Have Supporting Documentation

Imprest Fund policy and procedures require documentation to support the requested reimbursement. The documentation can be in the form of vendor invoices, purchase receipts, travel vouchers and employment contracts. The

amount recorded on the supporting documentation must match the amounts requested within the Reimbursement Reports submitted to the Ministry of Foreign Affairs for processing. While our review of 179 sampled transactions did not identify exceptions, RMI’s external auditor identified issues with unrecorded receipts and in addition, unknown deposits, unsupported payments, and disallowed payments from 2009 through 2013. MOFA officials explained they have updated their Manual that requires Embassies to post all deposits in RMI’s General Fund. The Manual requires review and approval of MOF.

We also identified variances between the amounts shown per the Embassy’s check registers and the reimbursement reports. In Fiscal Years 2009, 2011, and 2013, it is noted that amounts per check registers were greater in amount than the reimbursement reports. This suggests that expenditures were over reported. In Fiscal Years 2010 and 2012, amounts issued were greater than the amounts indicated in the reimbursement voucher, which indicates that expenditures were under reported as shown below:

Table 3: Disbursement Analysis

Year	Amount Disbursed Per Check Register	Reimbursement Voucher	Under/Over (-/+) Reported
2009	\$169,599.00	\$170,667.91	\$1,068.91
2010	\$219,778.45	\$217,243.45	(\$2,535)
2011	\$184,892.16	\$184,973.92	\$81.76
2012	\$235,505.50	\$219,372.40	(\$16,133.10)
2013	\$174,460.49	\$183,484.52	\$9,024.03

Source: OAG Analysis

Recommendations:

4. The Secretary of the Ministry of Foreign Affairs should develop a checklist of do's and don'ts for Imprest Fund management for distribution to Embassy staff.
5. The Secretary of Finance should carefully review reimbursement vouchers to ensure all disbursements are supported by documentation that verify existence and allowability of the purchase.

Finding No. 4 - Fixed Assets Record of the Embassy is Not Updated and Maintained Periodically

All overseas missions shall annually furnish to the Ministry of Foreign Affairs a list of fixed assets valued over \$300 that belong to RMI under the custody of the Embassy, whether donated or purchased

with funds appropriated to the Embassy. RMI defines fixed assets as buildings, improvements, furniture and equipment, ships, over the road vehicles and aircraft. In addition, the Imprest Fund Operational Guidelines require that a Fixed Asset Register be maintained at the Embassy at all times. The Fixed Assets Register requires updating every two years indicating the assets acquired and disposed of every two years.

The Embassy was generally not in compliance with key fixed assets requirements. The Fixed Asset Register was not prepared until just before our arrival and there was not record of items that required disposal. The Embassy did not place proper tags on any of their properties or equipment that would identify RMI as the owner of the assets, as established by industry best practices for asset management¹. The primary purpose of tagging fixed assets is to provide an accurate method of identifying assets as RMI property, to control the location of all physical assets, and to provide a link to records for physical inventories. Without ownership information on RMI assets and equipment, RMI is vulnerable to theft that could go undetected. We were unable to determine whether furniture or equipment was lost or stolen because the fixed asset register developed by Embassy staff was based on the assets that were currently present at the Embassy.

¹ The Foreign Policy Regulation of 1994 states that all fixed assets shall be marked to indicate government ownership. However, the new Foreign Affairs Act of 2007, which supersedes the 1994 Foreign Policy Regulation, does not state this requirement. MOF recently drafted its Procurement division's SOP drafted and the act of tagging government property is indicated in the drafted SOP.

Recommendation:

6. The Secretary of Foreign Affairs should ensure that Fixed Assets Registers are maintained regularly and establish standard internal control procedures to place proper tag and bar code labels on equipment, furniture, and other assets that identify government ownership.

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EXHIBITS

Exhibit 1: Budget Authorization and Expenditure for Fiscal Year 2009

Account Name	Acct No.	Adjusted Budget	Expended	Encumbrances	Balance Remaining
Salaries Expat	1010	\$21,100.00	\$24,000.02	\$-	\$(2,900.02)
Salaries Marsh	1011	94,733.00	103,088.63	-	(8,355.63)
Pers Benefit - Marsh	1115	8,190.00	6,737.35	-	1,452.65
Employee Ins Exp	1116	1,000.00	1,851.34	-	(851.34)
Travel	2020	4,721.00	9,744.40	-	(5,023.40)
Int. Travel	2021	20,700.00	9,986.95	7,445.00	3,268.05
Cost of Living Allwnc	2110	22,000.00	21,884.00	-	116.00
Rentals	2205	26,920.00	13,745.16	-	13,174.84
Land Lease	2210	3,125.00	3,125.00	-	-
Utilities	2215	17,633.00	13,382.92	-	4,250.08
Communication	2305	15,000.00	20,187.43	-	(5,187.43)
Insurance	2315	22,980.00	11,642.00	-	11,338.00
Printing & Reprod	2320	1,000.00	292.36	-	707.64
Repairs	2325	10,675.00	20,427.13	-	(9,752.13)
Subs, Dues & Fees	2330	1,000.00	-	-	1,000.00
office/Comp supplies	2405	3,000.00	2,708.08	-	291.92
POL (Fuel)	2410	7,000.00	2,123.26	-	4,876.74
Water	2445	500.00	-	-	500.00
Other Supplies/Mats	2450	5,000.00	5,651.12	-	(651.12)
Representation	2605	8,095.00	4,822.79	-	3,272.21
Other Charges & Exp	2750	5,500.00	13,489.33	-	(7,989.33)
Furniture & Fixtures	3133	-	3,508.03	-	(3,508.03)
TOTAL		299,872.00	292,397.30	7,445.00	29.70

Source: Ministry of Finance Financial Budget Reports (DILOG 240-P)

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Exhibit 2: Budget Authorization and Expenditure for Fiscal Year 2010

Account Name	Acct No.	Adjusted Budget	Expended	Balance Remaining
Salaries Expat	1010	\$38,000.00	\$30,692.34	\$7,307.66
Salaries Marsh	1011	116,569.45	96,834.78	19,734.67
Pers Benefit - Marsh	1115	1,000.00	6,335.13	(5,335.13)
Employee Ins Exp	1116	2,202.00	1,907.39	294.61
Audit Exp	1515	(1,842.00)	-	(1,842.00)
Travel	2020	4,519.55	8,415.10	(3,895.55)
International Travel	2021	29,225.70	33,840.96	(4,615.26)
Cost of Living Allowances	2110	45,000.00	45,000.00	-
Rentals	2205	30,135.91	35,424.48	(5,288.57)
Utilities	2215	14,911.88	17,833.58	(2,921.70)
Communication	2305	18,229.85	22,370.04	(4,140.19)
Insurance	2315	11,816.25	14,354.00	(2,537.75)
Printing & Reproduction	2320	1,000.00	319.00	681.00
Repairs	2325	6,616.66	7,848.49	(1,231.83)
Office/Computer supplies	2405	3,509.08	3,830.72	(321.64)
POL (Fuel)	2410	5,000.00	4,170.77	829.23
Water	2445	500.00	-	500.00
Other Supplies/Materials	2450	5,388.71	6,044.90	(656.19)
Representation	2605	8,851.16	9,609.05	(757.89)
Other Charges & Exp	2750	17,887.27	21,233.39	(3,346.12)
Reimbursable Exp	2910	-	579.49	(579.49)
TOTAL		358,521.47	366,643.61	(8,122.14)

Source: Ministry of Finance Financial Budget Reports (DILOG 240-P)

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Exhibit 3: Budget Authorization and Expenditure for Fiscal Year 2011

Account Name	Account Number	Adjusted Budget	Expended	Balance Remaining
Salaries - Expat	1010	\$38,000.00	\$42,384.66	\$(4,384.66)
Salaries - Marsh	1011	51,000.00	77,884.71	(26,884.71)
Pers Benefit - Expat	1114	11,655.00	-	11,655.00
Pers Benefit - Marsh	1115	1,000.00	11,392.56	(10,392.56)
Employee Ins Exp	1116	2,202.00	1,528.94	673.06
Audit Exp	1515	(189.00)	-	(189.00)
Travel	2020	5,000.00	18,883.36	(13,883.36)
International Travel	2021	13,113.00	14,022.18	(909.18)
Cost of Living Allwnc	2110	50,000.00	36,875.00	13,125.00
Lease & Rental Housing	2115	-	3,125.00	(3,125.00)
Rentals	2205	30,000.00	29,851.44	148.56
Utilities	2215	17,000.00	19,362.05	(2,362.05)
Communication	2305	15,000.00	18,092.24	(3,092.24)
Insurance	2315	7,000.00	13,781.00	(6,781.00)
Repairs	2325	10,000.00	4,362.83	5,637.17
Office/Computer Supplies	2405	3,342.00	3,299.99	42.01
POL (Fuel)	2410	5,000.00	3,369.79	1,630.21
Other Supplies/Materials	2450	4,000.00	2,223.03	1,776.97
Representation	2605	5,000.00	6,646.70	(1,646.70)
Other Charges & Exp	2750	5,000.00	12,189.15	(7,189.15)
Office Equipment & Computer	3132	5,000.00	4,120.08	879.92
TOTAL		278,123.00	323,394.71	(45,271.71)

Source: Ministry of Finance Financial Budget Reports (DILOG 240-p)

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Exhibit 4: Budget Authorization and Expenditure for Fiscal Year 2012

Account Name	Acct No.	Adjusted Budget	Expended	Balance Remaining
Salaries - Expat	1010	\$38,000.00	\$40,076.96	\$(2,076.96)
Salaries - Marsh	1011	57,000.00	60,692.51	(3,692.51)
Pers benefits - Marsh	1115	5,985.00	4,218.17	1,766.83
Employee Ins Exp	1116	2,202.00	1,354.59	847.41
Travel	2020	13,335.00	11,409.16	1,925.84
International Travel	2021	5,000.00	3,851.98	1,148.02
Cost of Living Allowances	2110	32,500.00	32,500.00	-
Leased & Rental Housing	2115	-	982.79	(982.79)
Repatriation & Home Leave	2123	10,000.00	10,000.00	-
Rentals	2205	24,000.00	25,316.95	(1,316.95)
Utilities	2215	17,000.00	16,324.70	675.30
Communication	2305	13,000.00	12,456.23	543.77
Insurance	2315	18,000.00	14,305.00	3,695.00
Printing & Reproduction	2320	1,000.00	315.00	685.00
Repairs	2325	12,000.00	5,047.57	6,952.43
Subscription, Dues & Fees	2330	1,000.00	-	1,000.00
Office/Computer Supplies	2405	2,936.00	12,663.66	(9,727.66)
POL (Fuel)	2410	5,000.00	4,594.13	405.87
Water	2445	500.00	-	500.00
Other Supplies/Materials	2450	3,500.00	3,688.55	(188.55)
Representation	2605	5,000.00	5,794.90	(794.90)
Other Charges & Exp	2750	6,500.00	11,783.23	(5,283.23)
Furniture & Fixtures	3133	7,000.00	6,941.42	58.58
TOTAL		280,458.00	284,317.50	(3,859.50)

Source: Ministry of Finance Financial Budget Reports (DILOG 240-P)

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Exhibit 5: Budget Authorization and Expenditure for Fiscal Year 2013

Account Name	Acct No.	Adjusted Budget	Expended	Encumbrance	Balance Remaining
Salaries - Expat	1010	\$ -	\$ 4,173.08	\$-	\$(4,173.08)
Salaries - Marsh	1011	84,000.00	73,684.86	-	10,315.14
Pers Benefit - Expat	1114	8,820.00	-	-	8,820.00
Pers Benefit - Marsh	1115	2,202.00	5,237.07	-	(3,035.07)
Employee Ins Exp	1116	-	1,698.89	-	(1,698.89)
Professional Services	1510	336.00	-	-	336.00
Audit Exp	1515	13,100.00	6,923.07	-	6,176.93
Contractual Services	1520	17,000.00	10,054.52	-	6,945.48
Travel	2020	11,800.00	6,947.37	-	4,852.63
Travel Budget	2099	45,000.00	41,875.00	-	3,125.00
Rentals	2205	23,750.00	26,295.50	-	(2,545.50)
Utilities	2215	20,000.00	12,443.54	-	7,556.46
Communication	2305	17,000.00	11,488.77	-	5,511.23
Insurance	2315	21,100.00	18,387.82	-	2,712.18
Printing & Reproduction	2320	2,000.00	227.79	-	1,772.21
Repairs	2325	16,300.00	15,961.40	-	338.60
Office/Computer Supplies	2405	750.00	450.55	-	299.45
POL (Fuel)	2410	6,500.00	5,799.98	-	700.05
Water	2445	500.00	128.92	-	371.08
Other Supplies/Materials	2450	3,000.00	896.79	-	2,103.21
Representation	2605	10,000.00	6,850.23	1,500.00	1,649.77
Other Charges & Exp	2750	11,500.00	(2,640.05)	100,938.00	(86,797.92)
Office Equipment & Computer	3132	6,500.00	2,164.63	-	4,335.37
Furniture & Fixture	3133	7,500.00	2,051.77	-	5,448.23
TOTAL		328,658.00	251,101.44	102,438.00	(24,881.44)

Source: Ministry of Finance Financial Budget Reports (DILOG 240-P)

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APPENDICES: AGENCY RESPONSES

Appendix I: Embassy Response to Recommendations



EMBASSY OF THE REPUBLIC OF THE MARSHALL ISLANDS

2433 Massachusetts Avenue, N.W.,
Washington, D.C. 20008

Tel. # (202) 234-5414 * Fax # (202) 232-3236 * E-mail: info@rmiembassyus.org

July 23, 2015

Mr. Junior Patrick
Auditor General
Office of the Auditor General
PO Box 245
Majuro, MH 96960

Dear Auditor General Patrick,

Thank you for the draft audit report for the Embassy of the Republic of the Marshall Islands to the United States for fiscal years 2009 to 2013. The Embassy acknowledges receipt of the report, and wishes to register a formal response to the findings listed in said report.

Finding 1 - The Embassy Has Insufficient Record Keeping Controls

The report states that documents were missing from the files in the Ministry of Finance (MOF) and the Ministry of Foreign Affairs (MOFA) that include the following for each fiscal year listed below:

Fiscal Year	Financial Documents Missing
2009	Bank statements, bank reconciliation, check register, and Imprest Reconciliation
2010	Wire Transfer and Imprest Reconciliation, six bank statements and bank reconciliation, two check registers
2011	Seven Imprest Reconciliations, three bank statements and bank reconciliation
2012	One check register
2013	Six Imprest fund reconciliation

The report goes on to say that according to MOF staff, files had been misplaced due to their relocation of offices.

The Embassy agrees that the documents might have been misplaced due to MOF and MOFA moving office spaces from the Capital building. Furthermore, the Embassy concedes to only the imprest fund reconciliation for all 5 years as a weakness in our monitoring. This is because both the former and current Administrative Assistant that records our book keeping were not properly trained to reconcile imprest funds with our

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bank statements. This changed as a result of an imprest fund training conducted by MOF and MOFA personnel in October 2014. The Embassy is now able to reconcile the imprest fund.

As for the other listed documents above, the Embassy has done a good job of providing these documents on a monthly basis to MOF and MOFA when requesting reimbursements for the imprest fund. The Embassy keeps a copy of these documents in electronic and printed form. Our records indicate that we have copies of all these missing documents as all originals are submitted to MOF.

Finding 2 - Embassy Expenditures Exceeded Budget Authorization

Table 2 below from the audit report depicts, showing that the Embassy overspent its budget in fiscal years 2010 to 2013, with 2009 as the only year it did not overspend its budget. The following table is below:

Fiscal Year	Approved Budget	Expenditures	Balance Remaining
2009	\$299,782.00	\$292,397.30	\$29.70
2010	\$358,521.47	\$366,643.61	\$(8,122.14)
2011	\$278,123.00	\$323,394.71	\$(45,271.71)
2012	\$280,458.00	\$284,317.50	\$(3,859.50)
2013	\$328,658.00	\$251,101.50	\$(24,881.50)

The Embassy wishes to seek clarification on this issue. The Embassy is given authority to spend its allocated budget, but only a portion of that allocation comes to the Embassy. Certain line items such as salaries and benefits for RMI diplomats, the Cost of Living Allowance (COLA) and other items are kept with the Ministry of Finance. What the Embassy actually expends is funds needed to conduct the day to day operations of the Embassy. The Embassy maintains an expenditure tracking system that records every transaction.

Below is a recreated table from our internal tracking system showing that the Embassy did not over spend its budget. The numbers are lower than the actual figures because we are only taking into consideration the portion of the approved budget that the Embassy expends from the imprest account. As you can see, all five years netted considerable cost savings due to increased efficiency and effectiveness in our service delivery.

Fiscal Year	Approved Budget	Expenditures	Balance Remaining
2009	\$173,949.00	\$159,235.98	\$14,713.02
2010	\$261,161.47	\$217,743.45	\$43,918.02
2011	\$167,455.00	\$166,149.39	\$1,305.61
2012	\$180,740.00	\$174,372.36	\$6,367.64
2013	\$201,425.00	\$179,432.45	\$21,992.55

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How the funds were overspent is something the Embassy cannot fully answer. As stated above, only a portion of our allocated budget is controlled and spent by the Embassy. A sizable portion is left with MOF to manage.

Finding 3 - Some Expenditures Did Not Match Reimbursement Documents or Did Not Have Supporting Documentation

The report states that there were unrecorded receipts and in addition, unknown deposits, unsupported payments, and disallowed payments from 2009 through 2013. The Embassy strictly follows the Imprest Fund policy and procedures. It also applies its internal control processes to cross check all expenditures and to ensure that all expenditures have supporting documents, including receipts, invoices, travel authorizations, and contracts. The Embassy has done a good job of providing supporting documents when submitting monthly reports for reimbursement but was never informed of any of the unrecorded receipts, unsupported payments, and disallowed costs for corrective actions.

As for the unknown deposits, the Embassy agrees with the finding but would like to clarify that these deposits were refunds from vendors for over paying of a bill or getting a check for insurance claims. The Embassy would then deposit these checks into the Embassy's Imprest Fund bank account at the Bank of Guam.

The report also states that there were variances between the amounts shown per the Embassy's check registers and the reimbursement reports. The Embassy agrees with the finding and will investigate these variances for future reporting except for \$81.60 that was over reported in 2011. The Embassy uses a financial management system called QuickBooks to generate its reports to minimize manual error but the reimbursement voucher is manually input. Our records indicate that the \$81.60 was a keying error.

The Embassy agrees with the two recommendations from the report but further recommends that the Secretary of Finance should inform the Embassy of any disallowed claims or missing supporting documents from the monthly Imprest Fund Replenishment (IFR) reports for corrective actions.

Finding 4 - Fixed Assets Record of the Embassy is Not Updated and Maintained Periodically

The Embassy partially accepts this finding and has taken steps to address this issue. The Embassy will work closely with MOF Procurement and Supply Office through MOFA to provide appropriate government fixed asset tags so they could be properly recorded. This inventory will be regularly submitted to MOF and MOFA.

The only part of this finding that I do not agree with is that the Embassy just developed the fixed asset inventory before the Audit team arrived. Our running fixed asset inventory was put in place prior to 2009, as there were equipment on the register that were dated further back. Furthermore, the embassy continues to record any new asset it

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acquires at time of purchase. The issue was the reporting part, and we will be vigilant in submitting reports on a regular basis.

Kommol tata,



Junior Alim
Charge d' Affaires ad interim

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Appendix II: Ministry of Finance Response to Recommendations



Republic of the Marshall Islands
Ministry of Finance

P.O. Box D ~ Majuro ~ Marshall Islands ~ 96960
Phone No. (692) 625-8835 ~ No. (692) 625-3607 ~ Email Address: finsec@rmimof.com

July 13, 2015

Junior Patrick
Auditor General
Majuro, RMI 96960



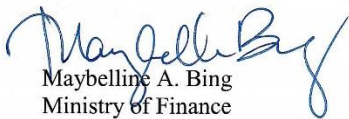
Dear Auditor General Patrick,

RE: Audit Response for New York & Washington DC Imprest Fund 2009-2013

The Ministry of Finance is pleased to submit its responses to the New York & Washington DC Embassies Imprest Fund Inspection for 2009-2013. Please let us know should you have any questions and concerns.

Thank you very much!

Sincerely,


Maybelline A. Bing
Ministry of Finance

Audit Response for Washington DC Embassy Imprest Fund 2009-2013

Finding 2: The Ministry of Finance (MOF) agrees with the finding. The Ministry of Finance will continue to work with the Ministry of Foreign affairs to ensure compliance to Financial Management Act.

Finding 3: The Ministry of Finance agrees with the finding. MOF will continue to ensure all vouchers are reviewed thoroughly and accordingly.

Appendix III: Ministry of Foreign Affairs's Response to Recommendations



REPUBLIC OF THE MARSHALL ISLANDS
MINISTRY OF FOREIGN AFFAIRS
P. O. BOX 1349
MAJURO, MARSHALL ISLANDS 96960

July 29, 2015

Mr. Junior Patrick
Auditor General
Office of Auditor General
Republic of the Marshall Islands



Dear Auditor General Patrick:

This is to provide our responses to the draft audits of the Permanent Mission of Republic of the Marshall Islands to UN-New York; Washington DC Embassy; Fiji Embassy, and Honolulu Consulate Office. Each head of mission have provided responses to their respective audits. Below you will find responses to those finding and recommendations which require policy changes to overall management and implementation of Imprest Funds.

Findings related to Expenditures Exceeded Budget Authorizations

In addition to those recommendations provided by Office of the Auditor General (OAG) and pointed out by the Mission, we wish to reiterate the current procedures and processes in place to address this finding.

In recognition of this issue, among others, an Imprest Fund training was held in Majuro at the beginning of FY2015. Representatives from all Embassies/Mission/Consulate Offices, with exception of Arkansas Consulate Office, attended the training. In the training, the budget monitoring form was introduced and encourage by all to commence utilizing so as to ensure expenditures do not exceed budget authorizations. If consistently utilized this budget monitoring form would provide a more up to date balance than that of the 240 report. In addition, Minsitry of Foreign Affairs (MoFA) has been requiring the 240 the Budget monitoring form to be submitted in the monthly Imprest Fund Reconciliation Report. However, should MoFA miss any over expenditures, we have commenced utilizing the Imprest Fund Status Report form so that any expenditures exceeding budget authorization can be documented by Ministry of Finance (MOF) as disallowed. This Imprest Fund Status Report forms basis in which MoFA home office and Embassies/Mission work out any

disallowed cost relating to not only Budget issues but also revenue , expense and bank and bank reconciliation issues.

Findings related to RMI's two Signatory Policy for Imprest Fund Disbursements

While we agree with recommendation for Secretary of Foreign Affairs to enforce this existing policy, we would like to note that this policy implies that the Embassies and Missions are adequately staff to comply with this requirement. Experience has proven that this is not always the case. We would like to offer our recommendations to MOF to address this reality by including language in policy for added internal controls mechanism before check issuance should the situation prove two authorized signatories not feasible. We propose utilizing voucher forms that require two signatures, Secretary and Head of Mission, so that checks can be signed by only one authorized signatory. We are willing to work with MOF to further discuss possible solutions to address exceptions to this policy.

Findings related to Advances from Imprest Fund

We have noted the recommendations related to properly accounting for travel advances and other advances. However, we would like to propose that language in Imprest Fund policy also include guidance on proper procedures for MoFA to follow to ensure that advances are completely and properly captured in the Government's accounting system.

Findings related to Expenditures did not Match Reimbursement Documents

MoFA home office will incorporate into current process to note any variance of amount disbursed reflected in check register against the reimbursement request.

Fixed Assets Record of the Embassy is Not Updated and Maintained Periodically

We plan on implementing the recommendation to this finding by incorporating updating of Fixed Assets Records as part of our year end close out procedures. In addition, we recommend MOF to incorporate language into the Imprest Fund policy to include exit procedures for departing and incoming staff, of which inventory/verification of fixed asset is required.

Findings related to Other Matters

OAG noted MoFA non compliance to the Government's housing allowance of \$750 per month. However, we propose revising this policy to exempt overseas Embassies and Missions from this policy. The \$750 housing allowance may seem appropriate to rental

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rates in Marshall Island but it is not necessarily appropriate for those Embassies/Missions overseas. Further, to diminish financial constraints placed on overseas staff due to outdated entitlements, we are actively seeking for a study/review of the entitlement, of which housing allowance will be included.

We thank you for the time accorded us to provide our formal responses.

Sincerely,



Bruce Kijiner
Secretary of Foreign Affairs

Copy to:
Minister of Foreign Affairs
Chief Secretary
File

[Appendix IV: Auditor-General's Response to Comments from the Embassy](#)

Finding No 1 –The Embassy Has Insufficient Record Keeping Controls.

OAG Response: Embassy management explained that staff did not receive proper training regarding reconciliation activities. We acknowledge this issue in our report. Embassy management, regardless of the circumstances, has responsibility for ensuring the implementation of proper accounting activities, including all required documentation.

Finding No 2 – Embassy Expenditures Exceeded Budget Authorization.

OAG Response: The Embassy reports that it was successful in maintaining expenditures with its allocated budget, which is direct contrast with the data described in this report. For the time period that we reviewed, the Embassy admittedly had not performed proper accounting activities of the Imprest Fund, which would adversely affect the budget surpluses reported by the Embassy. The OAG stands by our analysis that relied on MOF records and external financial audit reports.

Finding 3 – Some Expenditures Did Not Match Reimbursement Documents or Did Not Have Supporting Documentation.

OAG Response: Embassy management explained that they were not informed of any unrecorded receipts unsupported payments and disallowed costs. We relied on external audit reports for reporting on some of the systemic issues that we noted regarding the Embassy's accounting activities. An effective framework of internal control requires processes for information sharing and communication with agencies. When external audit reports or other types of oversight reports are prepared, standard protocol would dictate that lead agencies share the information with its affiliates.

The Embassy further reports that input errors occurred causing discrepancies in reimbursement amounts. Effective quality assurance activities, such as checking the amount of the original source documentation and the amounts recorded in the system, can be identified by summing the total of the invoices on hand with the accounts payable balance shown in Quick Books, or even cross checking the balances shown on the Reimbursement Reports with the information contained in Quickbooks.

Finding No 4 - Fixed Assets Record of the Embassy is Not Updated and Maintained Periodically.

OAG Response: Embassy management partially agreed with our recommendation regarding regularly maintaining a fixed assets register. For clarification purposes, the Embassy had not updated its fixed asset register until just prior to our visit. OAG continues to recommend that the Embassy regularly maintain a fixed assets register. We commend the Embassy's promise to work with MOFA and MOF to tag existing assets.

[Appendix V: Auditor-General's Response to Comments from Ministry of Foreign Affairs \(MOFA\)](#)

MOFA generally agreed with most of the OAG's recommendations directed to the various Embassies, the Honolulu Consulate and the UN Mission about implementing better internal controls for managing the Imprest Fund and other operations. We commend MOFA for taking action earlier in 2015 to conduct staff training and for plans to implement other internal controls. These actions are consistent with our expectation that management establish a framework of accountability for operations. While MOFA explained that insufficient staffing and budget appropriations have led to the concerns that we discussed among the various reports, we note that high performing organizations find alternative ways to work within their available resources or other constraints. Critical success factors include facilitating a good tone of accountability, providing the tools and training to accomplish better accountability, and conducting continuous monitoring and evaluation to ensure staff adhere to policies and procedures.

MOFA provided additional suggestions to improve accountability including, but not limited to, providing two signatures for voucher forms rather than checks and exit procedures for department staff. However, we continue to urge implementation of our recommendations because MOFA's proposals do not provide all of the assurance necessary that risks of fraud, waste and abuse are mitigated.

Finally, MOFA suggests an update to Imprest Fund Guidelines to include direction on the proper procedures to follow in managing the Imprest Fund. MOF shares responsibility for conducting oversight of financial management activities of RMI funded entities and we note in each report that MOF has already drafted inventory procedures for guidance. In addition, MOF expressed their desire to work with MOFA to provide continued training that could address how to implement the Imprest Fund Guidelines.

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Appendix VI: OAG Follow-Up System

#	FINDING	ACTION TO BE TAKEN
1	The Embassy Has Insufficient Record Keeping Controls	Provide written assurance that recommendation will be implemented.
2	Embassy Expenditures Exceeded Budget Authorization	<p>Embassy: No further action required as monitoring tool is already put in place.</p> <p>Secretary of Finance: Provide copies of additional measures to ensure all spending are in accordance with budget requirement and ceilings.</p>
3	Some Expenditures Did Not Match Reimbursement Documents or Did Not Have Supporting Documentation	<p>Secretary of Foreign Affairs: Provide checklist of do's and don'ts for Imprest Fund management.</p> <p>Secretary of Finance: Provide written assurance that recommendation will be implemented.</p>
4	Fixed Assets Record of the Embassy is Not Updated and Maintained Periodically	Secretary of Foreign Affairs: Provide a copy of internal control procedures regarding recording and tagging of Government-bought fixed assets.

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

HOTLINE

Telephone Line (692) 625-1155

*[The Hotline is a telephone line available Monday through Sunday and you can call us anytime of the day.
Calls to this number are anonymous and non-traceable]*

You may also contact us by writing to:

Facsimile (Fax) (692) 625-1156

[Messages to our fax machine are also anonymous and non-traceable]

OR

Office of the Auditor-General

P.O. Box 245

Majuro, MH 96960

[If you do not want to reveal your identity, do not disclose a return address]

OR

Fill out the Complaint Form from our website www.rmioag.com